

U.S. Inflation Flash

Headline Inflation Rises Moderately on Utilities Prices

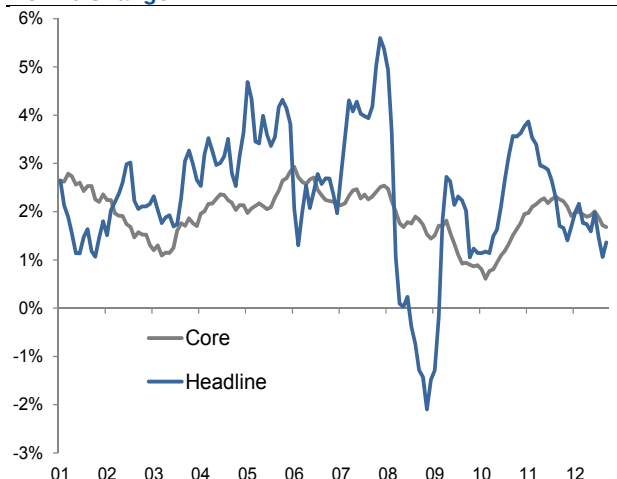
- **Headline inflation rose by 0.1% in May as utilities prices increased**
- **Motor fuel prices remained flat for the first time in 7 months**
- **Core prices rose at a faster pace, up 0.2% on shelter and transportation components**

The headline consumer price index for May was on par with market expectations as energy prices rebounded slightly to prevent another month of falling prices. Up 0.1% in May, headline inflation was buoyed, not by motor fuels, but by utilities prices, which rose 2.4% MoM. This follows a 4.4% increase in April which was the highest seen since the beginning of the economic downturn in 2008. Motor fuel prices, surprisingly, were stagnant in May while fuel oil prices continue to plummet, down 2.9% after declining 4.4% in April. Electricity prices have remained positive over the past two months, rising by 0.8% as the demand from households rises due to the onset of summer. The other primary component to headline inflation, food, declined slightly as beverages and dairy related products dragged the component downward.

Shifting gears toward the core CPI figure, the 0.2% increase in May was boosted by modest price increases in the services sector rather than commodities. Apparel prices continue to fluctuate as producers cope with varying weather conditions across the nation, skewing consumers' demand. However, apparel was the only commodity-based component to rise in price, up 0.2% while new vehicle and tobacco prices remained stagnant for the month. Used cars & truck prices declined moderately by 0.1% while medical care commodities declined by 0.5%. The more impactful sector, services, rose by 0.2% in May as shelter prices continued to bolster the figure with help from transportation. Shelter prices rose 0.3% as its components, rent and owner's equivalent of rent, rose by 0.3% and 0.2%, respectively. This is not much of a surprise as shelter prices continue to rise as the housing market recovers from historical lows. Medical care services, another of the components for the services sector remained flat for the month while the third component, transportation services, rose 0.4% as airlines begin raising prices for summer vacation season.

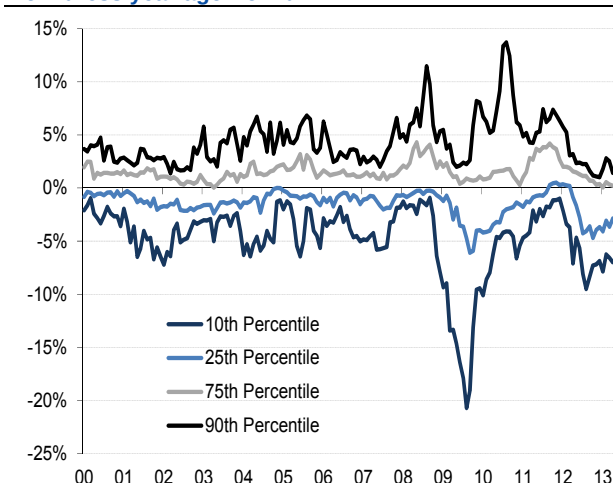
On a YoY basis the situation is improving from the Federal Reserve's perspective. The headline inflation figure rose to 1.4% from 1.1% in April and the core rate remained stable at 1.7%. While the Fed tends to pay more attention to the PCE reading of inflation, there is no doubt that the rapid decline in the CPI index will come up in discussion at this week's FOMC meeting. Nevertheless, given the stable reading for May, the situation remains accommodative in terms of the Fed's policy action and will continue to be for the coming months as shelter prices rise and commodity prices are expected to remain stable or rise moderately.

Chart 1
Consumer Price Inflation
YoY % Change



Source: Bureau of Labor Statistics & BBVA Research

Chart 2
12M YoY Relative Consumer Price Distribution
YoY% less year-ago YoY%



Source: Bureau of Labor Statistics & BBVA Research

DISCLAIMER

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research U.S. on behalf of itself and its affiliated companies (each BBVA Group Company) for distribution in the United States and the rest of the world and is provided for information purposes only. Within the US, BBVA operates primarily through its subsidiary Compass Bank. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources, believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.